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AZ CORP COMMISSION
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Subject: In The Matter Of The Filing Of Tucson Electric Power Company To Amend Decision No.62103, Arizona Corporation Commission Docket No. E-01933A-05-650; AND In The Matter Of The Application Of Tucson Electric Power Company For The Establishment Of Just And Reasonable Rates And Charges Designed To Realize A Reasonable Rate Of Return On The Fair Value Of Its Operations Throughout The State Of Arizona, Arizona Corporation Commission Docket No. E-01933A-07-0402.

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Enclosed for filing with the Arizona Corporation Commission are the original and fifteen copies of the Settlement Testimony Dan L. Neidlinger on behalf of the Department of Defense in the subject proceeding.

Copies of this Settlement Testimony have been sent in accordance with the attached Certificate of Service. Inquiries concerning this matter may be directed to the undersigned at (703) 696-1644.

Sincerely,

Peter Q. Nyce Jr.
General Attorney
Regulatory Law Office

Enclosure

Arizona Corporation Commission
DOCKETED

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**ARIZONA CORPORATION COMMISSION
TUCSON ELECTRIC POWER COMPANY
DOCKET NOS. E-01933A-05-0650 & E-01933A-07-0402**

Settlement Testimony of Dan L. Neidlinger

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

2 A. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix,
3 Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in
4 utility rate economics.

5

6 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS CASE ON**
7 **BEHALF OF THE DEPARTMENT OF DEFENSE (“DOD”)?**

8 A. Yes. I filed direct testimony on cost of service, rate design and DSM issues.

9

10 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

11 A. The purpose of this testimony is provide support for the Settlement Agreement
12 (“Agreement”) filed with the Commission on May 29, 2008. The DOD is a signatory to the
13 Agreement. The Agreement, in my view, provides a reasonable balancing of the interests of both
14 Tucson Electric Power Company (“TEP” or the “Company”) and its customers.

15

16 **Q. WHY DID THE DOD DECIDE TO SUPPORT THE AGREEMENT?**

1 A. The across-the-board 6.1% revenue increase provided for in the Agreement is contra to the
2 results of the class cost of service analyses discussed in detail in my direct testimony. However,
3 the Agreement incorporates revised rate designs that are consistent with my testimony that called
4 for increased demand charges and lower energy charges. The rate designs proposed in the
5 Company's filings would have unfairly penalized customers with high load factors. Fort
6 Huachuca ("Fort") and Davis Monthan Air Force Base ("DM") are both served under Large
7 Light & Power Rate Schedule 14 ("LLP-14"). Under the new LLP-14 rate, demand charges are
8 increased by approximately \$6.00 per Kilowatt ("KW") from present rate levels and summer and
9 winter kilowatt-hour ("kWh") charges reduced by \$0.013 and \$0.019, respectively. These
10 changes, together with the new optional time-of-use ("TOU"), Rate Schedule LLP-90N ("LLP-
11 90N"), provide both DOD installations with a strong financial incentive to reduce their power
12 costs by reducing and/or shifting peak demands. Both of these rate schedules are provided in
13 Exhibit 8 attached to the Agreement. The potential benefits of these significant rate design
14 changes outweigh any cost of service deficiencies inherent in the across-the-board revenue
15 spread.

16
17 **Q. IS THE OPTIONAL TOU RATE LLP-90N A COST-BASED RATE?**

18 A. Yes, in my opinion, it is. Mandatory TOU rates are not required under the Agreement.
19 However, the optional LLP-90N rate available to both the Fort and DM is a cost-based rate that
20 provides large economic incentives to shift load to off-peak periods. Both of these DOD
21 facilities will give serious consideration to this option.

22
23 **Q. ARE THERE OTHER PROVISIONS IN THE AGREEMENT WHICH BENEFIT**
24 **THE FORT AND DM AS WELL AS THE OTHER CUSTOMERS OF TEP?**

25 A. Yes, there are a number of other provisions that are of benefit to all customers. First, rates
26 will be set based on the cost of service methodology – the same approach that has been
27 historically used to set rates for TEP. Upon Commission approval of the Agreement, the
28 Company will withdraw its proposed hybrid and market methodology filings. Second, the \$788

1 regulatory asset requested by the Company under the cost of service methodology has been
2 reduced to \$14 million. Third, the Agreement provides for a four-year moratorium on increases
3 in base rates. Base rates shall remain frozen through December 31, 2012. Finally, the
4 Agreement provides for the filing within 90 days of the effective date of the Commission's
5 approval of the Agreement the filing of new Partial Requirements Service ('PRS') tariffs, an
6 Interruptible Tariff and a Demand Response Program Tariff.

7
8 **Q. DID YOU FILE SUPPLEMENTAL DIRECT TESTIMONY IN THIS CASE**
9 **REQUESTING CHANGES TO THE CURRENT PRS TARIFFS?**

10 A. Yes. My testimony¹ on the PRS issue addressed the economic barriers inherent in the
11 Company's current PRS tariffs to the development of large-scale renewable energy projects.
12 The Agreement states that the "tariffs will be designed so as to not inhibit the installation of large
13 solar or other renewable projects"².

14
15 **Q. HOW WILL THESE TARIFFS BE DEVELOPED?**

16 A. The Agreement provides that revised PRS tariffs, new interruptible load and demand
17 response tariffs will be developed in consultation with ACC Staff and other interested
18 stakeholders.

19
20 **Q. PARAGRAPH 15.1 ON PAGE 18 OF THE AGREEMENT REQUESTS THAT**
21 **SIGNATORIES TO THE AGREEMENT STATE THEIR POSITION WITH RESPECT**
22 **TO THE EFFECTIVE DATE OF NEW RATES AND THE TREATMENT OF FIXED**
23 **CTC TRUE-UP REVENUES. WHAT IS YOUR OPINION ON THESE ISSUES?**

24 A. I have no objection to implementing prior to January 1, 2009 the rates appended to this
25 Agreement. With respect to the over-collection of fixed CTC revenues, I recommend that all of

¹ Supplemental Direct Testimony filed in these Dockets and Docket E-01933A-07-0594

² Page 26 of the Agreement

1 these revenues be credited to the PPFAC bank account for the benefit of the Company's
2 customers.

3

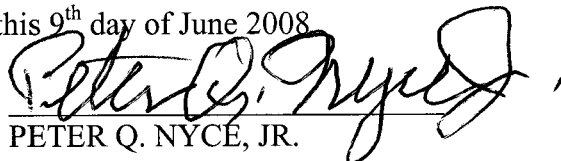
4 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

5 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Settlement Testimony of Dan L. Neidlinger on behalf of the United States Department of Defense was sent to the parties on the attached service list either by United Parcel Service Next Day Air or by first class mail, postage prepaid on June 9, 2008 and will be sent by electronic mail on June 11, 2008.

Dated at Arlington County, Virginia, this 9th day of June 2008


PETER Q. NYCE, JR.

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E-01933A-07-0402
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